

Charter Township of Mundy Genesee County, Michigan

**Financial Report
with Supplemental Information
December 31, 2007**

Charter Township of Mundy

Contents

Report Letter	I
Management's Discussion and Analysis	2-9
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11-12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of the Balance Sheet to the Statement of Net Assets	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
General Fund Budgetary Comparison Schedule	17-18
Proprietary Funds:	
Statement of Net Assets	19
Statement of Revenue, Expenses, and Changes in Fund Net Assets	20
Statement of Cash Flows	21
Fiduciary Funds:	
Statement of Net Assets	22
Notes to Financial Statements	23-39



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Independent Auditor's Report

To the Board of Trustees
Charter Township of Mundy
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mundy, as of and for the year ended December 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mundy Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mundy, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

May 22, 2008

Charter Township of Mundy

Management's Discussion and Analysis

Our discussion and analysis of Mundy Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2007:

Michigan has seen an economical downturn in the past few years. Many townships and other governmental units are experiencing dwindling fund balances and finding it increasingly difficult to balance budgets with the high cost of energy, health benefits increases and decreasing job market. Even in this economical climate, in 2007, the Township saw an increase in its General Fund fund balance of \$293,505.

In the General Fund, actual revenue exceeded budget by \$332,414. Actual expenditures were over budget by \$278,571. This was due to the cost of two new fire trucks for \$302,484 approved and paid for in 2006, but not received until 2007. Generally accepted accounting principles require that the actual expense cannot be booked until the assets have been received. (The Fire Department will budget at a reduced spending level over the next 8 years as a measure to account for the cost of the trucks; since these costs had not been reserved in advance.) In total the general fund had a positive actual to budget variance of \$53,843.

In 2007, the Township adopted a new line item budget which added more cost centers than in previous years. The new detailed budget also accounted for more allocation of costs between departments and funds to provide more insight into the true operational costs of each department.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Charter Township of Mundy

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	Year ended December 31,			Change from 2006	
	2005	2006	2007	Dollars	%
Revenue					
General revenue:					
Property taxes	\$ 2,197,553	\$ 2,371,339	\$ 2,632,071	\$ 260,732	0.11
State-shared revenue	895,087	885,837	893,140	7,303	0.01
Investment earnings	166,373	263,596	294,355	30,759	0.12
Franchise fees	147,789	177,407	163,681	(13,726)	(0.08)
Landfill host community fees	18,300	393,161	424,450	31,289	0.08
Miscellaneous	11,579	32,437	10,375	(22,062)	(0.68)
Program revenue:					
Charges for services	1,066,398	1,055,775	1,149,249	93,474	0.09
Operating grants and contributions	33,765	79,153	27,057	(52,096)	(0.66)
Total revenue	4,536,844	5,258,705	5,594,378	335,673	0.06
Program Expenses:					
General government	2,123,890	1,274,009	1,100,800	(173,209)	(0.14)
Public safety	2,921,717	2,751,103	3,021,560	270,457	0.10
Public works and other current services	1,107,530	1,103,739	864,149	(239,590)	(0.22)
Refunds of prior year taxes	-	-	22,804	22,804	
Lawsuit claims (net of recoveries)	-	509,447	50,553	(458,894)	(0.90)
Total program expenses	6,153,137	5,638,298	5,059,866	(578,432)	(0.10)
Transfers	(216,951)	-	-	-	
Change in Net Assets	\$ (1,833,244)	\$ (379,593)	\$ 534,512	\$ 914,105	(2.41)

Charter Township of Mundy

Management's Discussion and Analysis (Continued)

	Year ended December 31,			Change from 2006	
	2005	2006	2007	Dollars	%
Cash and investments	\$ 4,817,408	\$ 5,194,110	\$ 5,712,810	\$ 518,700	0.10
Receivables and other current assets	3,084,508	2,589,689	2,088,620	(501,069)	(0.19)
Capital assets	3,773,049	3,655,388	4,322,933	667,545	0.18
Total assets	11,674,965	11,439,187	12,124,363	685,176	0.06
Current liabilities	3,559,772	3,703,588	3,533,420	(170,168)	(0.05)
Long term liabilities	-	-	320,830	320,830	
Total liabilities	3,559,772	3,703,588	3,854,250	150,662	0.04
Net assets:					
Invested in capital assets, net of related	3,773,049	3,655,388	3,905,179	249,791	0.07
Restricted	238,127	199,433	87,280	(112,153)	(0.56)
Unrestricted	4,104,018	3,880,780	4,277,654	396,874	0.10
Total net assets	<u>\$ 8,115,194</u>	<u>\$ 7,735,601</u>	<u>\$ 8,270,113</u>	<u>\$ 534,512</u>	0.07
Unrestricted net assets as a percent of expen	67%	69%	85%		

The governmental net assets increased 7 percent from a year ago - increasing from \$7,735,601 to \$8,270,113. In contrast, last year's net assets decreased by 5 percent.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$396,874 for the governmental activities. This represents an increase of approximately 10 percent. The current level of unrestricted net assets for our governmental activities stands at \$4,277,654, or about 85 percent of expenditures.

The Township's total governmental revenues increased by \$335,673. The increase, which represents 6 percent, was primarily due to the continuing increase in property taxes.

Expenses decreased by \$578,432 during the year. Decreases were primarily due to the reduction of lawsuit costs from 2006.

Charter Township of Mundy

Management's Discussion and Analysis (Continued)

Business-type Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	Year ended December 31,			Change from 2006	
	2005	2006	2007	Dollars	%
Charges for services:					
Water and sewer fees	\$ 1,884,414	\$ 1,941,116	\$ 2,270,154	\$ 329,038	0.17
Other operating revenue	53,312	36,536	48,381	11,845	0.32
Capital contributions	588,075	374,935	209,393	(165,542)	(0.44)
General revenue - investment earnings	168,092	359,668	456,250	96,582	0.27
Total revenue	2,693,893	2,712,255	2,984,178	271,923	0.10
Expenses:					
Water and sewer purchases	1,471,032	1,503,418	1,619,249	115,831	0.08
Operation and maintenance costs	143,568	266,144	343,690	77,546	0.29
Depreciation	349,693	349,693	350,179	486	0.00
Total expenses	1,964,293	2,119,255	2,313,118	193,863	0.09
Net income (loss)	<u>\$ 729,600</u>	<u>\$ 593,000</u>	<u>\$ 671,060</u>	<u>\$ 78,060</u>	0.13
	Year ended December 31,			Change from 2006	
	2005	2006	2007	Dollars	%
Cash and investments	\$ 7,202,042	\$ 8,212,548	\$ 9,105,966	\$ 893,418	0.11
Receivables and other current assets	743,659	728,447	785,948	57,501	0.08
Capital assets	7,767,534	7,417,841	7,070,575	(347,266)	(0.05)
Total assets	15,713,235	16,358,836	16,962,489	603,653	0.04
Current liabilities	266,555	352,207	307,200	(45,007)	(0.13)
Long term liabilities	238,929	205,879	183,479	(22,400)	(0.11)
Total liabilities	505,484	558,086	490,679	(67,407)	(0.12)
Net assets:					
Invested in capital assets, net of related	7,528,605	7,211,962	7,070,575	(141,387)	(0.02)
Unrestricted	7,679,146	8,588,788	9,401,235	812,447	0.09
Total net assets	<u>\$ 15,207,751</u>	<u>\$15,800,750</u>	<u>\$16,471,810</u>	<u>\$ 671,060</u>	0.04

The Township's business-type activities consist of the Water and Sewer Fund. Both water and sewage services are provided to residents from Genesee County.

Charter Township of Mundy

Management's Discussion and Analysis (Continued)

The net assets of business type activities increased 4 percent from a year ago - increasing from \$15,801 thousand to \$16,472 thousand. This change is consistent with a 4 percent increase last year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$812,446. This represents an increase of approximately 9 percent. The current level of unrestricted net assets stands at \$9,401,235.

Mundy township purchases our water and sewage service from Genesee County. In 2007, the County passed on both a water and sewer increase. The township passed on the entire 16% rate increase for sewer services, but opted to only increase water rates by 5%; instead of the 10% increase suggested by the County. The Township believes it has adequate unreserved net assets to accommodate the reduced water rate increase. Also, since the Water and Sewer Fund has had healthy unrestricted net assets, the Township has budgeted \$2 million dollars in capital improvements for 2008, and has also begun preliminary plans to bring water/sewer billing in house; which has historically been done by Genesee County.

The Township's Funds

Our analysis of the Township's major funds follows the government-wide financial statements. The fund financial statements provide detail information about individual funds, not the Township as a whole. The Township's major funds consist of the General Fund and the Water and Sewer Fund.

Charter Township of Mundy

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the Township's governmental services. A three year trend, presented on the modified accrual basis of accounting, follows:

	Year ended December 31,			Change from 2006	
	2005	2006	2007	Dollars	%
Revenue:					
Property taxes	\$ 2,197,553	\$ 2,371,339	\$ 2,632,071	\$ 260,732	0.11
State shared revenue	895,087	885,837	893,140	7,303	0.01
Rubbish fees	539,822	553,891	551,337	(2,554)	0.00
Building related permits	193,254	85,383	53,436	(31,947)	(0.37)
School tax collection fees	-	-	220,558	220,558	
Police liasons and related fees	188,527	187,950	166,780	(21,170)	(0.11)
Interest	166,373	263,596	294,355	30,759	0.12
Reimbursements and refunds	-	-	99,839	99,839	
Cable and internet fees	147,789	177,407	163,681	(13,726)	(0.08)
Landfill host community fees	18,300	393,161	424,450	31,289	0.08
All other revenue sources	191,649	341,141	212,884	(128,257)	(0.38)
Total revenue	4,538,354	5,259,705	5,712,531	452,826	0.09
Expenditures:					
General government	1,238,143	1,171,298	1,165,914	(5,384)	0.00
Police	2,010,319	2,061,018	2,233,279	172,261	0.08
Fire	591,180	545,812	809,551	263,739	0.48
Building safety	119,135	133,785	197,238	63,453	0.47
Public works and other current services	1,103,068	1,099,277	939,687	(159,590)	(0.15)
Refunds of prior year taxes	-	-	22,804	22,804	
Lawsuit claims (net of recoveries)	850,000	509,447	50,553	(458,894)	(0.90)
Total expenditures	5,911,845	5,520,637	5,419,026	(101,611)	(0.02)
Surplus (Shortfall)	(1,373,491)	(260,932)	293,505	554,437	(2.12)
Fund balance:					
Beginning of year	5,714,636	4,341,145	4,080,213	(260,932)	(0.06)
End of year	\$ 4,341,145	\$ 4,080,213	\$ 4,373,718	\$ 293,505	0.07
Fund balance as a percent of expenditures	73%	74%	81%		

Significant increases in revenue from 2006 to 2007 included increases in property taxes and school tax collection. Property taxes increased by approximately 11%; which was slightly up from the previous year's increase. In 2007 the Township collected a fee from school districts for their summer tax levies that are billed, collected and disbursed back to each school district by the Township. The Township levies and collects its property taxes in the winter and therefore is allowed to recover costs associated with this summer tax collection from each school district.

Charter Township of Mundy

Management's Discussion and Analysis (Continued)

Significant increases in expenditures included police department retiree health care costs or OPEB (other post employment benefits). Recently, the Government Accounting Standards Board (GASB) established new guidelines that require governments to account for their "other post employment benefits" (OPEB) costs and obligations as they are incurred each year for future promised benefits payments. In the past these costs were paid out of current revenues on a "pay as you go" basis. Increases in expenditures also included two new fire trucks purchased by the Fire Department. Other significant changes in expenditures included a decrease in lawsuit costs from 2006 to 2007.

In 2007, revenues were greater than expenditures increasing the General Fund's fund balance by \$293,505.

During 2007, the Township revamped its budget by creating additional departmental operating budgets, allocating shared costs between departments and adopting a line item budget mid year. This new detailed budget is expected to have a greater impact on understanding spending trends for the Township when preparing subsequent years' budgetary needs.

General Fund actual revenues of \$5,712,531 exceeded budgeted revenues of \$5,380,117 by \$332,414. The increase in actual revenues over budget was due to increases in several line items which included: interest income, franchise fees and impact fees.

General Fund actual expenditures of \$5,419,026 exceeded budgeted expenditures of \$5,140,455 by \$278,571. The increase in expenditures over budget was due to the purchase of two new fire trucks. These trucks were approved by the Board and also paid for in the previous year. However, the Township did not take delivery on the new trucks until 2007. GAAP (generally accepted accounting principles) does not allow recognition of the expenditure until delivery and/or transfer of possession has taken place. Therefore, in 2006, the Township recognized the payment as deposit on the asset and expensed the trucks in 2007 when delivery was made.

Capital Asset and Debt Administration

At the end of 2007, the Township had \$4,322,933 in governmental activities and \$7,070,575 in business type activities for a total of \$11,393,508 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines (Note 5). In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Genesee County Road Commission (along with the responsibility to maintain them).

Also, at the end of 2007, the Township had \$400,000 in long term debt. This liability is a result of the Township's share of the Howland Drain reconstruction special assessment bond; which will be paid in full in 2011 (Note 9).

Charter Township of Mundy

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Property taxes are anticipated to increase by only 5 percent in 2008. Although the Township has experienced growth in past years, we have seen a slowdown in new construction. Also, Proposal A limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

No increase to water and sewer rates are expected in 2008. However, in 2008 the Township has committed \$2 million dollars in net assets toward capital improvements and \$200,000 in preliminary funding to take over the water and sewer monthly billing from the County. The Water and Sewer Fund has adequate net assets to continue investing into the infrastructure, but the Township expects to proceed cautiously due to the current and projected future downturn in Michigan's economy.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Charter Township of Mundy

Statement of Net Assets December 31, 2007

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 5,712,810	\$ 9,105,966	\$ 14,818,776
Receivables - Net:			
Taxes for next year	1,271,175	-	1,271,175
Special assessments	253,988	114,347	368,335
Water and sewer accounts	170,978	729,373	900,351
Due from other governments	303,894	-	303,894
Internal balances	57,772	(57,772)	-
Inventories	4,912	-	4,912
Prepaid expenses and deposits	25,901	-	25,901
Capital assets - Net (Note 5):			
Assets not subject to depreciation	382,236	-	382,236
Assets subject to depreciation	3,940,697	7,070,575	11,011,272
Total assets	12,124,363	16,962,489	29,086,852
Liabilities			
Accounts payable	93,929	307,200	401,129
Accrued and other liabilities	156,568	-	156,568
Deferred revenue (Note 4)	3,177,215	-	3,177,215
Noncurrent liabilities (Note 8):			
Due within one year	105,708	-	105,708
Due in more than one year	320,830	183,479	504,309
Total liabilities	3,854,250	490,679	4,344,929
Net Assets			
Invested in capital assets	3,905,179	7,070,575	10,975,754
Restricted for:			
Building inspections	30,201	-	30,201
Rights of way (Metro Act)	30,264	-	30,264
Drug forfeitures	26,315	-	26,315
Parks and recreation	500	-	500
Unrestricted	4,277,654	9,401,235	13,678,889
Total net assets	<u>\$ 8,270,113</u>	<u>\$ 16,471,810</u>	<u>\$ 24,741,923</u>

Charter Township of Mundy

Statement of Activities Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 1,100,800	\$ 242,091	\$ -	\$ -	\$ (858,709)
Public safety:					
Police	2,014,771	202,327	9,564	-	(1,802,880)
Fire	809,551	-	-	-	(809,551)
Building inspections and related	197,238	53,436	-	-	(143,802)
Public works	830,843	608,954	-	-	(221,889)
Community and economic development	33,091	42,441	16,993	-	26,343
Parks and recreation	215	-	500	-	285
Refunds of prior year taxes	22,804	-	-	-	(22,804)
Lawsuit claims (net of recoveries)	50,553	-	-	-	(50,553)
Total governmental activities	5,059,866	1,149,249	27,057	-	(3,883,560)
Business-type activities:					
Water and sewer fund	2,313,118	2,318,535	-	209,393	214,810
Total primary government	<u>\$ 7,372,984</u>	<u>\$ 3,467,784</u>	<u>\$ 27,057</u>	<u>\$ 209,393</u>	<u>\$(3,668,750)</u>

Charter Township of Mundy

Statement of Activities (Continued) Year Ended December 31, 2007

	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Business Type		
	Governmental	Activities	Total
Net (expense) revenue, from above	\$ (3,883,560)	\$ 214,810	\$ (3,668,750)
General revenues:			
Property taxes	2,632,071	-	2,632,071
State-shared revenues	893,140	-	893,140
Investment earnings	294,355	456,250	750,605
Franchise fees	163,681	-	163,681
Landfill host community fees	424,450	-	424,450
Miscellaneous	10,375	-	10,375
Total general revenues	4,418,072	456,250	4,874,322
Change in Net Assets	534,512	671,060	1,205,572
Net Assets - Beginning of Year	7,735,601	15,800,750	23,536,351
Net Assets - End of year	\$ 8,270,113	\$16,471,810	\$24,741,923

Charter Township of Mundy

Governmental Funds (General Fund) Balance Sheet December 31, 2007

	General Fund
Assets	
Cash and investments	\$ 5,712,810
Receivables:	
Property taxes receivable	1,271,175
Special Assessments Receivable	253,988
Billed services	170,978
Due from other governments	303,894
Due from other funds	57,772
Inventories	4,912
Prepaid expenses and deposits	25,901
Total assets	<u><u>\$ 7,801,430</u></u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 93,929
Accrued salaries and wages	156,410
Payroll taxes and withholdings	158
Deferred revenue	<u>3,177,215</u>
Total liabilities	3,427,712
Fund Balances	
Reserved for:	
Prepaid costs	25,901
Building inspections	30,201
Rights of way (Metro Act)	30,264
Drug forfeiture	26,314
Parks and recreation	500
Unreserved	<u>4,260,538</u>
Total fund balance	<u>4,373,718</u>
Total liabilities and fund balances	<u><u>\$ 7,801,430</u></u>

Charter Township of Mundy

Governmental Funds (General Fund) Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended December 31, 2007

Fund balances reported in governmental funds	\$ 4,373,718
Capital assets used in governmental activities are not financial resources and are not reported in the funds	4,322,933
Capital lease obligations are not due and payable in the current period and are not reported in the funds	(417,755)
Employee compensated absences are payable over a long period of years, and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	<u>(8,783)</u>
Net assets of governmental activities	<u><u>\$ 8,270,113</u></u>

Charter Township of Mundy

Governmental Funds (General Fund) **Statement of Revenue, Expenditures, and Changes in Fund Balances** **Year Ended December 31, 2007**

	<u>General Fund</u>
Revenue	
Property taxes	\$ 2,632,071
Licenses and permits	65,796
Intergovernmental revenues	919,697
Charges for services	1,039,406
Interfund charges for services	
Fines and forfeitures	35,547
Interest and rentals	303,355
Other	<u>698,345</u>
Total revenue	5,694,217
Expenditures	
Current:	
General government	1,165,914
Public safety:	
Police	2,233,279
Fire	809,551
Building inspections and related	197,238
Public works	906,381
Planning and zoning	33,091
Parks & Recreation	215
Refunds of prior year taxes	22,804
Lawsuit claims (net of recoveries)	<u>50,553</u>
Total expenditures	<u>5,419,026</u>
Excess of Revenue Over Expenditures	275,191
Other Financing Sources	
Proceeds from capital lease	<u>18,314</u>
Net change in fund balances	293,505
Fund Balances - Beginning of year	<u>4,080,213</u>
Fund Balances - End of year	<u>\$ 4,373,718</u>

Charter Township of Mundy

Governmental Funds (General Fund) Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 293,505
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however in the statement of activities these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	510,860
Depreciation expense	(343,315)

Capital lease initiation provides financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of	(18,314)
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Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	100,559
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Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment.	<u>(8,783)</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 534,512</u></u>
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Charter Township of Mundy

Governmental Funds (General Fund) Budgetary Comparison Schedule December 31, 2007

	Original Budget (Note 2)	Amended Budget	Actual	Difference
Revenue				
Property taxes:				
Operating millage	\$ 801,000	\$ 818,956	\$ 818,956	\$ -
Police millage	1,000,000	1,047,246	1,047,246	-
Fire millage	500,000	523,608	523,609	1
Property tax administration fees	-	206,253	242,260	36,007
Licenses and permits:				
Building permits	190,000	48,809	53,436	4,627
Other licenses and permits	5,900	11,764	12,360	596
Intergovernmental revenues:				
Community Development Block Grant	-	-	16,993	16,993
State-shared revenue	900,000	865,447	893,140	27,693
Police related grants	-	9,564	9,564	-
Charges for services:				
Planning and zoning fees	20,000	44,390	42,441	(1,949)
Rubbish pickup assessment	555,000	551,337	551,337	-
School tax collection fees	150,000	220,558	220,558	-
Street light assessments	58,000	57,617	57,617	-
Police liasons and related fees	196,600	163,617	166,780	3,163
Other charges for services	-	-	173	173
Ordinance fines	-	31,500	35,547	4,047
Interest and rent:				
Interest income	200,108	200,108	294,355	94,247
GAIN rental	9,000	9,000	9,000	-
Other				
Donations	-	500	500	-
Reimbursements and refunds	-	65,620	99,839	34,219
Cable franchise fees	110,000	110,000	153,960	43,960
Michigan Broadband Authority	8,000	-	9,721	9,721
Landfill host community fees	395,600	394,223	424,450	30,227
Other revenues	35,000	-	10,375	10,375
Total revenue	5,134,208	5,380,117	5,694,217	314,100
Other financing sources - Capital lease	-	-	18,314	18,314
Total revenue and other financing sources	5,134,208	5,380,117	5,712,531	332,414

Charter Township of Mundy

Governmental Funds (General Fund) Budgetary Comparison Schedule (Continued) December 31, 2007

	Original Budget (Note 2)	Amended Budget	Actual	Difference
Expenditures				
Current:				
General government:				
Trustees		44,837	43,774	1,063
Supervisor		328,411	322,432	5,979
Treasurer		314,750	301,194	13,556
Clerk		184,324	178,974	5,350
Elections		16,713	20,651	(3,938)
Other general government costs		255,126	298,889	(43,763)
Public safety:				
Police		2,226,971	2,233,279	(6,308)
Fire		580,798	809,551	(228,753)
Building inspections and related		208,772	197,238	11,534
Public works:				
Streets		252,200	264,895	(12,695)
Stormwater drainage		11,000	14,628	(3,628)
Rubbish disposal		518,255	518,255	-
Street lighting		90,000	88,651	1,349
Cemetery		4,115	2,355	1,760
Other public works activities		-	17,597	(17,597)
Planning and zoning:				
Planning Commission		22,049	24,412	(2,363)
Zoning Board of Appeals		8,010	8,679	(669)
Recreation and culture - Parks and recreation		320	215	105
Refunds of prior year taxes		22,804	22,804	-
Lawsuit claims (net of recoveries)		51,000	50,553	447
Total expenditures	5,087,014	5,140,455	5,419,026	(278,571)
Net change in fund balances	47,194	239,662	293,505	53,843
Fund Balances - Beginning of year	4,080,213	4,080,213	4,080,213	-
Fund Balances - End of year	\$ 4,127,407	\$ 4,319,875	\$ 4,373,718	\$ 53,843

Charter Township of Mundy

Proprietary Funds (Water and Sewer Fund) Statement of Net Assets December 31, 2007

Assets

Current assets:

Cash and investments	\$ 9,105,966
Receivables:	
Customer sales on account	200,790
Usage not yet billed	528,583
Current portion of special assessments	<u>15,004</u>
Total current assets	9,850,343

Noncurrent assets:

Special assessments receivable - Net of current portion	99,343
Capital assets	<u>7,070,575</u>
Total assets	17,020,261

Liabilities

Current liabilities:

Accounts payable	307,200
Due to other funds	<u>57,772</u>
Total current liabilities	364,972

Noncurrent liabilities:

Construction advances (Note 7)	<u>183,479</u>
Total liabilities	548,451

Net Assets

Investment in capital assets - Net of related debt	7,070,575
Unrestricted	<u>9,401,235</u>
Total net assets	<u><u>\$ 16,471,810</u></u>

Charter Township of Mundy

Proprietary Funds (Water and Sewer Fund) Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2007

Operating Revenue

Sale of water disposal	\$ 2,270,154
Interest and penalty charges	47,514
Inspections and other fees	<u>867</u>

Total operating revenue 2,318,535

Operating Expenses

Cost of water purchased	673,085
Cost of sewage treatment	946,164
Operation and maintenance costs	343,690
Depreciation	<u>350,179</u>

Total operating expenses 2,313,118

Operating income (loss) 5,417

Nonoperating revenue (expenses):

Investment income 456,250

Income (loss) - Before contributions 461,667

Capital contributions:

Benefit fees 209,393

Change in net assets 671,060

Net Assets - Beginning of year 15,800,750

Net Assets - End of year \$ 16,471,810

Charter Township of Mundy

Proprietary Funds (Water and Sewer Fund) Statement of Cash Flows Year Ended December 31, 2007

Cash Flows from Operating Activities:

Receipts from customers	\$ 2,202,238
Payments to suppliers	(1,937,582)
Payments to employees	(45,953)
Net cash (used in) provided by operating activities	<u>218,703</u>

Cash Flows from Capital and Related Financing Activities

Collection of special assessments	34,387
Collection of customer benefit fees	209,393
Payments on contractor advances	(22,402)
Purchase of capital assets	(2,913)
Net cash provided by capital and related financing activities	<u>218,465</u>

Cash Flows from Investing Activities

Interest received on investments	<u>456,250</u>
Net cash provided by investing activities	<u>456,250</u>

Net Increase (Decrease) in Cash and Cash Equivalents 893,418

Cash and Cash Equivalents - Beginning of year 8,212,548

Cash and Cash Equivalents - End of year \$ 9,105,966

Reconciliation of operating income to net cash from operating activities:

Operating income (loss)	\$ 5,417
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation	350,179
Changes in assets and liabilities:	
Receivables	(116,297)
Accounts payable and due to others	(28,726)
Accrued and other liabilities	8,130
Net cash (used in) provided by operating activities	<u><u>\$ 218,703</u></u>

Noncash investing, Capital, and Financing Activities - During the year ended December 31, 2007, the water and sewer fund had no significant noncash investing, capital or financing activities.

Charter Township of Mundy

Fiduciary Funds (Tax Collection Agency Fund) Statement of Fiduciary Net Assets December 31, 2007

Assets

Cash and investments	<u><u>\$ 2,210,801</u></u>
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Liabilities

Due to other governments	<u><u>\$ 2,210,801</u></u>
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Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Mundy (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Mundy:

Reporting Entity

The Charter Township of Mundy is governed by an elected seven-member Board. The accompanying financial statements present the Township; there are no component units for which the Township is considered to be financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability. In addition, property tax revenue billed prior to the next fiscal year (to which it relates) is reported as deferred revenue.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports only the General Fund as a major governmental fund. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township reports the Water and Sewer Fund as a major proprietary funds. The Water and Sewer Fund accounts for activities of the water distribution system and sewage collection system. Both services are obtained through Genesee County.

Additionally, the Township reports Tax Collection Fund as a fiduciary activity. The Tax Collection is an Agency Fund, and accounts for taxes collected by the Township to be remitted to the other taxing authorities (i.e., the county, school district and state). Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Township's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund recognizes tap fees intended to recover cost of the infrastructure as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2006 tax was levied and collectible on December 1, 2006, and was recognized as revenue in the year ended December 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue (Continued)

The 2006 taxable valuation of the Township totaled \$525.7 million. Taxes were levied as follows:

<u>Purpose</u>	<u>Millage rate</u>	<u>Revenue</u>
General Operating	1.56	\$ 818,956
Police	2.00	1,047,246
Fire	1.00	523,609
Total	4.56	\$ 2,389,811

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads	20 years
Water and sewer distribution systems	50 years
Buildings and building improvements	40 years
Vehicles	5 years
Office equipment	5 to 7 years
Computer equipment	3 years

Compensated Absences (Vacation and Sick Leave) –Employees’ unused sick and personal time is paid out in cash at the end of the year. Non police employees’ vacation time cannot be carried forward and is forfeited at the end of the year. Police officers are entitled to carryover 100 hours of comp time and 40 hours of vacation each year. Police accruals are included in the government wide statements only under expense and long term debt.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the state's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Surplus (shortfall) at January 1, 2007		\$ 162,142
Current year building permit revenue		65,297
Related expenses:		
Direct costs	\$ 159,062	
Estimated indirect costs	<u>38,176</u>	
Total construction code expenses		<u>197,238</u>
Cumulative surplus (shortfall) at December 31, 2007		<u>\$ 30,201</u>

Excess expenditures over budget - The Township adopts their budget on a line item basis. The budgetary comparison schedule is presented on a departmental basis; a comparison of the individual line items is available at the treasurer's office. The structure of the 2007 budget was changed significantly during the year; as a result, the departmental comparison is inconsistent with the original budget. Therefore, the budgetary comparison schedule shows only the total expenditures for the original budget. There were several line items over budget. Below is the only significant expenditure in excess of the amended budget appropriation:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Fire Department - Equipment	<u>\$ 30,000</u>	<u>\$ 318,527</u>	<u>\$ (288,527)</u>

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 3 - Deposits and Investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Township is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated two banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts, CDs, and all the remainder of State statutory authority as listed above. The Charter Township of Mundy's deposits and investment policies are in accordance with statutory authority).

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$9,965,276 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 3 - Deposits and Investments (Continued)

Credit risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Governmental MMF - Chase	\$ 4,070,996	AAA	S & P
MBS	194,431	AAA	Moody's

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned	Total
Current property taxes	\$ -	\$ 3,177,215	\$ 3,177,215
Total	\$ -	\$ 3,177,215	\$ 3,177,215

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance at Beginning of Year	Additions	Disposals	Balance at End of Year
Governmental Activities				
Land	\$ 382,236	\$ -	\$ -	\$ 382,236
Construction in progress	-	-	-	-
Subtotal	<u>382,236</u>	<u>-</u>	<u>-</u>	<u>382,236</u>
Capital assets being depreciated:				
Buildings and improvements	4,303,432	22,724	-	4,326,156
Machinery and equipment	3,403,806	488,136	-	3,891,942
Intangible	-	500,000	-	500,000
Infrastructure	<u>89,236</u>	<u>-</u>	<u>-</u>	<u>89,236</u>
Subtotal	7,796,474	1,010,860	-	8,807,334
Accumulated depreciation:				
Buildings and improvements	1,462,867	127,886	-	1,590,753
Machinery and equipment	3,047,070	190,967	-	3,238,037
Intangible	-	20,000	-	20,000
Infrastructure	<u>13,385</u>	<u>4,462</u>	<u>-</u>	<u>17,847</u>
Subtotal	<u>4,523,322</u>	<u>343,315</u>	<u>-</u>	<u>4,866,637</u>
Net capital assets being depreciated	<u>3,273,152</u>	<u>667,545</u>	<u>-</u>	<u>3,940,697</u>
Net capital assets	<u>\$ 3,655,388</u>	<u>\$ 667,545</u>	<u>\$ -</u>	<u>\$ 4,322,933</u>
Business-type Activities				
Capital assets being depreciated:				
Water and sewer distribution/ collection systems	\$ 17,484,668	\$ 2,913	\$ -	\$ 17,487,581
Accumulated depreciation:				
Water and sewer distribution/ collection systems	<u>10,066,827</u>	<u>350,179</u>	<u>-</u>	<u>10,417,006</u>
Net capital assets	<u>\$ 7,417,841</u>	<u>\$ (347,266)</u>	<u>\$ -</u>	<u>\$ 7,070,575</u>

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 101,569
Public safety	217,284
Public works	<u>24,462</u>
Total governmental activities	<u>\$ 343,315</u>
Business-type activities:	
Water and sewer	<u>\$ 350,179</u>
Total business-type activities	<u>\$ 350,179</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund (Major Fund)	<u>\$ 57,772</u>
Total		<u>\$ 57,772</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 7 - Tap in Fees Advanced from Developer

The Township has a long-term construction advance liability for monies advanced by developers for construction of water and sewer lines benefiting their properties. The tap-in fee, which would normally be charged to the contractor for projects serviced, was applied to the advance. Also, 100% of tap-ins to other land owners in the developer's area will be applied against the amount advanced and paid back to the developer. Payments based on the current activity will be remitted to the developer annually. After ten years, the developer will not be entitled to any further use of their advance regardless of whether or not they have used to full amount. The developers' interests in the various tap-in contracts will expire in November 2013. At the expiration date of the agreements, any remaining construction advance liability will be recorded as contributions revenue.

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 8 - Noncurrent Liabilities

The Township has entered into a capital lease agreement in its general fund as lessee for financing the purchase of a police vehicle at a cost of \$18,314. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

<u>Years Ending</u>	<u>Amount</u>
2008	\$ 6,709
2009	6,709
2010	<u>6,150</u>
Total minimum lease payments	19,568
Less amount representing interest	<u>1,813</u>
Present value	<u><u>\$ 17,755</u></u>

In addition, the Township provides compensated absences to certain employees. Police officers are entitled to carryover 100 hours of comp time and 40 hours of vacation each year.

Note 9 - Long-term Debt

County contractual agreements are general obligations of the township.

The Township has the following long term debt outstanding as of December 31, 2007:

<u>Description</u>	<u>Amount</u>
Governmental Activities	
General Obligations:	
2007 Howland Drain Bond, bearing interest of 4.0%, maturing in 2012	\$ 400,000
Total Governmental Activity Debt	<u><u>\$ 400,000</u></u>

Long-term debt activity can be summarized as follows:

	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Governmental Activities					
General obligations	\$ -	\$500,000	\$100,000	\$ 400,000	\$ 100,000
Total governmental activities	<u><u>\$ -</u></u>	<u><u>\$500,000</u></u>	<u><u>\$100,000</u></u>	<u><u>\$ 400,000</u></u>	<u><u>\$ 100,000</u></u>

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 9 - Long-term Debt

Total interest expense for the year was approximately \$8,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 100,000	\$ 16,000	\$ 116,000
2009	100,000	12,000	112,000
2010	100,000	8,000	108,000
2011	100,000	2,000	102,000
	<u>\$ 400,000</u>	<u>\$ 38,000</u>	<u>\$ 438,000</u>

Note 10 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for property loss, torts, errors and omissions, and employee benefits claims and participates in the Michigan Municipal League risk pool for claims relating to employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 11 - Defined Benefit Pension

A. MERS – Police Patrol & Detective

Plan Description. The Township participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers police employees of the Township. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 11 - Defined Benefit Pension (Continued)

A. MERS - Police Patrol and Detective (Continued)

Funding policy. The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's collective bargaining units and requires a contribution from the employees of 5 percent.

Annual Pension Cost. For year ended December 31, 2007 the Township's annual pension cost of \$118,880 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information.

	Fiscal year ended December 31:		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$108,693	\$120,475	\$118,880
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31:		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 930,324	\$1,1163,394	\$1,441,040
Actuarial Accrued Liability (entry age)	1,996,469	2,345,525	2,683,468
Unfunded AAL	1,066,145	1,182,131	1,242,428
Funded ratio	46.6%	49.6%	53.7%
Covered payroll	\$ 964,294	\$1,051,427	\$1,041,856
UAAL as a percentage of covered payroll	110.6%	112.4%	119.3%

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 11 - Defined Benefit Pension (Continued)

B. MERS – AFSCME

Plan Description. The Township participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers employees other than police officers of the Township. This plan was transferred from a defined contribution plan in October 2006. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way., Lansing, MI 48917.

Funding policy. The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's collective bargaining units and requires a contribution from the employees of 5 percent.

Annual Pension Cost. The initial actuarial valuation is as of October 1, 2006. For year ended December 31, 2007 the Township's annual pension cost of \$49,828. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2 percent per year cost of living adjustments. The salary increase includes an inflation component of 3 to 4%. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

	<u>Fiscal year ended December 31, 2007</u>
Annual pension cost	\$ 49,828
Percentage of APC contributed	100%
Net pension obligation	\$ -
	<u>Actuarial Valuation as of October 1, 2006</u>
Actuarial value of assets	\$ -
Actuarial Accrued Liability (entry age)	1,192,988
Unfunded AAL	1,192,988
Funded ratio	-%
Covered payroll	\$ -
UAAL as a percentage of covered payroll	-%

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 12 - Defined Contribution Pension Plan

The Township provides defined contribution plan to its elected officials through MERS, administered by ICMA-RC Financial Services. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Officials are eligible to participate from the first day of employment and have immediate vesting. The Township contributes 10 percent of officials' gross earnings and officials are required to contribute 5 percent.

During the current year, the Township contributed \$10,056 and officials contributed \$5,028 to the plan.

The Township Treasurer is exempt from this plan, as he is a retiree currently drawing a pension from the Township's police defined benefit plan (Note 9). Therefore, the Township provides a separate defined contribution plan with the same vesting and participation percentages to the Treasurer through Sunlife Retirement Service. During the Current year, the Township contributed \$2,186 and the Treasurer contributed \$1,093 to this plan.

Note 13 - Retiree Health Care

Plan description. The Township has elected to provide health care benefits to police retirees and their spouses. The Township pays the full cost of coverage for these benefits, and pre-funds them through an agency multi-employer plan administered by MERS.

The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules require the government wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. Mundy Township chose early implementation of this reporting change in 2007 rather than the required 2009 implementation date.

Funding policy. The plan requires no contribution from employees. The Township has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the Township has made contributions to advance-fund these benefits, as appropriated by the Township Board through annual budget resolutions.

Charter Township of Mundy

Notes to Financial Statements December 31, 2007

Note 13 - Retiree Health Care (Continued)

Funding progress: For the year ended December 31, 2007 the Township has estimated the cost of providing retiree health care benefits through an actuarial valuation as of December 31, 2006. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. For year ended December 31, 2007 the Township's annual OPEB cost of \$129,126 for the plan was equal to the Township's required and actual contribution. This valuation's computed contribution and actual funding are summarized as follows:

Fiscal year ended December 31:	<u>2007</u>
Annual OPEB cost	\$129,126
Percentage of APC contributed	100%
Net pension obligation	-
Actuarial Valuation as of December 31:	<u>2006</u>
Actuarial value of assets	\$ -
Actuarial Accrued Liability (entry age)	1,794,314
Unfunded AAL	1,794,314
Funded ratio	-%
Covered payroll	791,701
UAAL as a percentage of covered payroll	16.31%

Actuarial methods and assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 13 - Retiree Health Care (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2006, actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by half-percent decrements each year to an ultimate rate of 4.55 percent after 2018 and later years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2006, was thirty years.

Note 14 - Sale of Delinquent Property Taxes

The Township annually sells its delinquent real property taxes to the County, which then becomes responsible for collecting the taxes, and taking any uncollected tax parcels through the tax reversion process. The County purchases these taxes at 100% of face value, and in return the County is allowed to retain all interest and penalties it collects. The estimated present value of the future delinquent collections to the Township is less than the face value that has been received, because of the time value of money; however, the net present value to the County is greater than this amount, because of the statutory provision that allows the County to retain all penalties and interest. During the current year, the Township received \$267,486 from this sale, at the end of the tax reversion process (approximately 3 years), the County charges the Township back for any uncollected taxes. Historically, this amount has not been significant.

Charter Township of Mundy

**Report to the Board of Trustees
December 31, 2007**



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May 22, 2008

To the Board of Trustees
Charter Township of Mundy

We have recently completed our audit of the basic financial statements of Charter Township of Mundy for the year ended December 31, 2007. In addition to our opinion on the basic financial statements, we are providing the following communications:

	<u>Page</u>
Results of the Audit Process	2-4
Policy Comments and Recommendations	5-7
Informational/ Legislative Comments	8-9

We are grateful for the opportunity to be of service to the Charter Township of Mundy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,
Plante & Moran, PLLC

A handwritten signature in black ink that reads "Joseph C. Heffernan".

Joseph C. Heffernan

Results of the Audit Process

To the Board of Trustees
Charter Township of Mundy

We have audited the financial statements of Charter Township of Mundy for the year ended December 31, 2007, and have issued our report thereon dated May 22, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 10, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Charter Township of Mundy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters in our communication of April 10, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Charter Township of Mundy are described in Note I to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Charter Township of Mundy during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

To the Board of Trustees
Charter Township of Mundy

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. At the Charter Township of Mundy, the transactions most susceptible to estimation relate to contingent liabilities. There were no significant contingencies reported at December 31, 2007.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 22, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Charter Township of Mundy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Board of Trustees
Charter Township of Mundy

Other Audit Findings or Issues

In the normal course of our professional association with the Charter Township of Mundy we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Charter Township of Mundy, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Charter Township of Mundy's auditors.

This information is intended solely for the use of Board of Trustees and management of Charter Township of Mundy and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

May 22, 2008

Charter Township of Mundy

Policy Comments and Recommendations

As part of our audit, we also have the following comments and recommendations that we hope you will consider incorporating into your business practices:

Formal Policies

As the Township grows, we believe it would benefit you to have more formal written policies and procedures in place. Currently we observe differences in expectations between various employees and officials, and we believe that when used in moderation, formal policies can be beneficial for bridging these expectation gaps.

We understand that this is a big topic. We have some guidance materials that may be helpful to you in considering the types of policies you may want to consider, and would be happy to provide you with copies of them. One specific area that you may want to give your attention to would be a comprehensive purchasing policy. Among other things, such a purchasing policy should consider:

1. Responsibility for approval of invoices. While the Township Board has a legal obligation to approve the list of bills, some larger Townships often find the need to perform this procedure at the departmental level also, where department heads have detailed knowledge of the purpose of each purchase and can perform this monitoring with the knowledge they already have.
2. Procedures for paying bills prior to board approval (such as utilities, or invoices with penalties for late payment). The procedure should specify which types of claims can be paid prior to Board approval, and the procedures to subsequently inform the Board.
3. When contracts are required. Generally such policies specify the types of services, and/or dollar amounts above which contracts should either be required or waived by Board action.

Capital Plan

The Township should consider creating a six year capital plan for capital outlays. The Township should assess the needs of the Township with regards to vehicles, equipment and capital improvements. Based on the results of the plan, the Township should then consider the need to develop more formal funding mechanisms. While moderate levels of capital needs can be funded through the annual General Fund budget process, some communities use either a capital projects fund or an internal service fund. While the former can be useful for setting aside funds for large future capital purchases, the latter can bring much more flexibility in allocating costs to various departments (the costs can be smoothed by year more easily, and the cost allocations can vary as asset usage changes over time). Both these methods significantly increase the accounting requirements, and so are generally used only in situations where the amount or complexity of expected capital needs are high enough to warrant their use.

Charter Township of Mundy

Policy Comments and Recommendations (Continued)

It should be noted that this capital planning process may need to be coordinated with the Townships' implementation of Public Act 33 of 2008. That legislation (which is effective September 1, 2008) appears to require either the planning commission or the township board (when exempting the planning commission) to adopt a six year capital improvements plan. Two areas will need to be addressed: (a) whether the planning commission or the township board should be responsible for the capital plan; and (b) the scope of the expenditures to be included. While P.A. 33 only requires infrastructure related items (public structures and improvements), our recommendation is to plan for all capital related items, including vehicles, machinery and equipment. For instance, fire trucks would be exempt from P.A. 33, but we feel these large expenditures should certainly be included in a comprehensive capital plan.

Capital Asset Threshold

The township adopted a capitalization policy for assets with a value of \$5,000. This is the level recommended by the GFOA (Government Finance Officers Association). However, given the size of Mundy Township, our opinion is that this threshold has the possibility of not recording an amount of capital assets that could ultimately be material to the Township. Our recommendation would be to consider a lower level, perhaps in the range of \$2,000 to \$3,000. Currently the Township has capital assets that are below the threshold and in total amount to \$680,453. We believe that this amount is significant to the Township.

Level of Budget Adoption

We see that the Township has recently changed its budget adoption to a line item budget, in order to have appropriate control over spending levels. We would like to make the observation that under Michigan law, there are two levels of detail to be considered in budget adoption, and that these two levels are not required to be synchronized. Under Michigan law, there are two separate documents to be considered in the annual budget process: the budget document itself, and the General Appropriations Act. The budget document is the informational packet that the Township board must be provided before adopting the General Appropriations Act; the General Appropriations Act is the resolution adopted by the Board that implements the budget (gives legal authority to undertake spending activities). An excellent discussion of the legal requirements for these two documents may be found on the State's web site at: http://www.michigan.gov/documents/UniformBudgetManual_16634_7.pdf

In brief, the budget document must provide revenue and expenditure information for the most recent audited year, estimated revenue and expenditures for the current year (to be arrived at by adding the year to date revenues and expenditures to the anticipated activity for the remainder of the fiscal year), and proposed revenue and expenditures for the year to be budgeted; it must also include a projection of the fund balance to the end of the year being budgeted. The General Appropriations Act must state the appropriations for the upcoming year (approved expenditures), the estimated revenues, and the mills to be levied.

Charter Township of Mundy

Policy Comments and Recommendations (Continued)

We strongly recommend that the budget document be prepared on a line item basis, in order to provide sufficient information to the Township Board. The General Appropriations Act, however, may be prepared at several different levels. The most common is the departmental level (providing a single appropriation for each department as used in your Chart of Accounts). However, the General Appropriations Act allows for the use of different creative methods for providing more or less control.

For instance, some communities provide additional control by including the number of personnel for each department in the General Appropriations Act, or include a separate capital outlay schedule. Alternatively, some communities use the following three subsections for each department: personnel costs, other operating costs, and capital outlay. The Township Board may find that any of these ideas may be useful to Mundy Township. Our purpose in bringing this to your attention is not to suggest that your current line item budget is inappropriate, but rather to better inform you of the options, so that you may consider the method that best fits your needs.

Charter Township of Mundy

Informational/Legislative Comments

Treasurer's Report on Investments

A new law was passed in December 2007 for reporting on investments to the board. The treasurer is now required to report on investments at least quarterly. While the law proscribes no minimum information requirements, we feel that the report should include a list of investments with the financial institution each issued through, the amount, and perhaps the stated interest rate.

Property Tax Revenue

Property taxes have consistently been the Township's largest revenue source. With the continuing downturn in the real estate market, the Legislature is picking up some bills that were proposed back in 2007 that they hope will help spur sales. This includes potential legislation that would adjust the mechanics of the general property tax act. The nature of the legislation has ranged from the suspension of the "pop-up" or increase in taxable value that occurs when a property sells or a "super cap" on taxable value that prohibits an increase in taxable value when market values are declining. The outcome of this legislation could also have a significant impact on the Township. We will keep you informed as significant events unfold.

In addition, the Township needs to be aware of the potential financial impact of reduced housing market values. Property tax assessments are being completed currently for the 2008 tax year and tax rolls will not be finalized until May 2008. However, early indications are that declines in market values (state equalized value) may threaten the inflationary growth in taxable value that communities had been experiencing following the passage of Proposal A. It is important to understand the connection between market value declines and taxable value declines. On the one hand, a reduction in SEV (state equalized value) will not immediately result in an equivalent reduction in TV (taxable value, which is what the tax bills are now based on). The reason for this is that TVs were held down in those years since 1994 when property values increased faster than inflation; now that they are increasing less than inflation (or decreasing), Proposal A allows the TVs to continue increasing at the inflationary rate, up until the point that TV meets SEV. While some properties have already met this ceiling, the majority have not, and for this reason many communities expect 2008 TV in total to increase or decrease only slightly. However, it is important to understand that if the market downturn continues, more and more properties will hit this ceiling where TV meets SEV, and the impact will be more drastic each year we go forward. We caution the Township to keep this in mind as it begins its 2009 budget deliberations.

Charter Township of Mundy

Informational/Legislative Comments (Continued)

State Shared Revenue

State shared revenue continues to be the Township's second largest revenue source. Due to State budget issues, the Township has seen a 15% decline over the last five years. The Governor's 2009 budget is anticipating another decline in total sales tax collections, which will result in reduced constitutional state shared revenue. While the Governor's budget is proposing a 4% increase in the statutory portion, we feel that the results of the May revenue estimating conference will make this difficult to do. At this point, we would predict a slight decline in state shared revenue for the year beginning October 1, 2008. Prior to beginning the 2009 budget cycle you should check in with us or with the Michigan Townships Association to verify any changes that will take place between now and then.

Closing

We would like to thank the Township Board for the opportunity to serve as auditors for the Mundy Township. We would also like to express our appreciation for the time and courtesy extended to us by the Township personnel during the audit. We received a very high level of attention and cooperation from staff to complete the audit in a timely manner. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you further.